

Life is a choice...



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Emeritus Assisted Living Annual Report 2003

Choose...



Emeritus.



AL Galleria Oaks, Birmingham; AZ Village Oaks at Chandler, Chandler; Loyalton of Flagstaff, Flagstaff; Village Oaks at Glendale, Glendale; Village Oaks at Mesa, Mesa; Arbor at Olive Grove, Phoenix; La Villita, Phoenix; Loyalton of Phoenix, Phoenix; Scottsdale Royale, Scottsdale; CA Emerald Hills, Auburn; Villa Del Rey, Escondido; Loyalton of Rancho Solano, Fairfield; Loyalton of Folsom, Folsom; The Terrace, Grand Terrace; The Palms at Loma Linda, Loma Linda; The Springs at Oceanside, Oceanside; Creston Village, Paso Robles; Fulton Villa, Stockton; CO Loyalton of Broadmoor, Colorado Springs; CT Cold Spring Commons, Rocky Hill; DE Green Meadows at Dover, Dover; Gardens at Whitechapel, Newark; FL Stanford Centre, Altamonte Springs; College Park Club, Bradenton; Park Club of Brandon, Brandon; River Oaks, Englewood; Park Club of Fort Myers, Ft. Myers; The Lakes, Ft. Myers; Village Oaks at Southpoint, Jacksonville; Park Club of Oakbridge, Lakeland; Barrington Place, Lecanto; Village Oaks at Melbourne, Melbourne; La Casa Grande, New Port Richey; Village Oaks at Orange Park, Orange Park; The Pavillion at Crossing Pointe, Orlando; Village Oaks at Conway, Orlando; The Lodge at Mainlands, Pinellas Park; Beneva Park Club, Sarasota; The Colonial Park Club, Sarasota; Springtree, Sunrise; Village Oaks at Tuskawilla, Winter Springs; ID Summer Wind, Boise; Ridge Wind, Chubbuck; Loyalton of Coeur d'Alene, Coeur d' Alene; Juniper Meadows, Lewiston; Highland Hills, Pocatello; IL Loyalton of Rockford, Rockford; Canterbury Ridge, Urbana; IN Village Oaks at Fort Wayne, Fort Wayne; Meridian Oaks, Indianapolis; Village Oaks at Greenwood, Indianapolis; IA Silver Pines, Cedar Rapids; KS The Fairways of Augusta, Augusta; Elm Grove Estates, Hutchinson; Liberal Springs, Liberal; KY Stonecreek Lodge, Louisville; LA Kingsley Place at Alexandria, Alexandria; Kingsley Place at Lafayette, Lafayette; Kingsley Place at Lake Charles, Lake Charles; Kingsley Place at Shreveport, Shreveport; MD Emerald Estates, Baltimore; Loyalton of Hagerstown, Hagerstown; MA Canterbury Woods, Attleboro; The Lodge at Eddy Pond, Auburn; Woods at Eddy Pond, Auburn; Meadow Lodge at Drum Hill, Chelmsford; The Pines at Tewksbury, Tewksbury; MS Loyalton of Biloxi, Biloxi; Trace Point, Clinton; Loyalton of Hattiesburg, Hattiesburg; Silverleaf Manor, Meridian; Ridgeland Pointe, Ridgeland; MO Autumn Ridge, Herculaneum; MT Springmeadows Residence, Bozeman; NV Concorde, Las Vegas; Village Oaks at Las Vegas, Las Vegas; The Seasons, Reno; NJ Loyalton of Cape May, Cape May; Laurel Lake Estates, Voorhees; NY The Landing at Brockport, Brockport; Perinton Park Manor, Fairport; East Side Manor, Fayetteville; Loyalton of Lakewood, Lakewood; Colonie Manor, Latham; West Side Manor, Liverpool; Green Meadows at Painted Post, Painted Post; The Landing at Queensbury, Queensbury; West Side Manor, Rochester; Bellevue Manor, Syracuse; Woodland Manor, Vestal; Bassett Manor, Williamsville; Bassett Park Manor, Williamsville; NC The Pines of Goldsboro, Goldsboro; Loyalton of Greensboro, Greensboro; Heritage Hills Retirement, Hendersonville; Heritage Lodge Assisted Living, Hendersonville; Pine Park Retirement, Hendersonville; OH The Landing at Canton, Canton; Brookside Estates, Middleberg Heights; Loyalton of Ravenna, Ravenna; Park Lane, Toledo; OR Meadowbrook, Ontario; PA Green Meadows at Allentown, Allentown; Loyalton of Bloomsburg, Bloomsburg; Loyalton of Harrisburg, Harrisburg; Green Meadows at Latrobe, Latrobe; Loyalton of Creekview, Mechanicsburg; SC Anderson Place - Cottages, Anderson; Anderson Place - Nursing Home, Anderson; Anderson Place - Summer House, Anderson; Countryside Park, Easley; Countryside Village Assisted Living, Easley; Countryside Village Health Center, Easley; Countryside Village Retirement, Easley; Bellaire Place, Greenville; Skylyn Health Center, Spartanburg; Skylyn Personal Care, Spartanburg; Skylyn Retirement, Spartanburg; The Willows at York, York; TN Walking Horse Meadows, Clarkesville; TX Seville Estates, Amarillo; Beckett Meadows, Austin; Loyalton of Austin, Austin; Dowlen Oaks, Beaumont; Vickery Towers at Belmont, Dallas; Loyalton of Lake Highlands, Dallas; Cambria Lodge, El Paso; The Palisades, El Paso; Village Oaks at Cielo Vista, El Paso; Village Oaks at Farmers Branch, Farmers Branch; Tanglewood Oaks, Fort Worth; Kingsley Place at Henderson, Henderson; Champion Oaks, Houston; Memorial Oaks, Houston; Eastman Estates, Longview; Elmbrook Estates, Lubbock; Kingsley Place at Stonebridge Ranch, McKinney; Saddleridge Lodge, Midland; Sherwood Place, Odessa; Collin Oaks, Plano; Myrtlewood Estates, San Angelo; Amber Oaks, San Antonio; Hamilton House, San Antonio; Kingsley Place at Oakwell Farms, San Antonio; Kingsley Place at the Medical Center, San Antonio; Village Oaks at Hollywood Park, San Antonio; Woodbridge Estates, San Antonio; Redwood Springs, San Marcos; Sugar Land Oaks, Sugar Land; Meadowlands Terrace, Waco; Lakeridge Place, Wichita Falls; UT Emeritus Estates, Ogden; VA Loyalton of Danville, Danville; Wilburn Gardens, Fredericksburg; Loyalton of Harrisonburg, Harrisonburg; Cobblestones at Fairmont, Manassas; Loyalton of Roanoke, Roanoke; Loyalton of Staunton, Staunton; WA Fairhaven Estates, Bellingham; Arbor Place at Silverlake, Everett; Seabrook, Everett; Evergreen Lodge, Federal Way; Hearthside of Issaquah, Issaquah; Regent Court at Kent, Kent; Kirkland Lodge at Lakeside, Kirkland; The Hearthstone, Moses Lake; Harbour Pointe Shores, Ocean Shores; The Courtyard at the Willows, Puyallup; Renton Villa, Renton; Richland Gardens, Richland; Emeritus Oaks of Silverdale, Silverdale; Cooper George - Spokane; Garrison Creek Lodge, Walla Walla; WV Charleston Gardens, Charleston.

Setting the standard, raising the bar.

Emeritus is an acknowledged leader in the assisted living industry, with one of the largest networks of assisted living communities in North America. We own and manage 175 communities in 33 states with a resident capacity of over 18,200. We began as an alternative for seniors who could no longer live at home. Today we're proud to be setting the standard that defines the assisted living industry. We're one of the few growing companies providing unique living choices for seniors across the country.

One big reason for our success is the way we approach our business. For example, we refer to our buildings as communities because of the way we strive to foster an atmosphere of belonging among staff and residents. We believe that our communities are our residents' homes. It's a principle that's woven into our corporate fiber and one that's reflected in our slogan, which lets people know that moving into an Emeritus community is "The Start of Something Wonderful."

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**Dear Shareholders:**

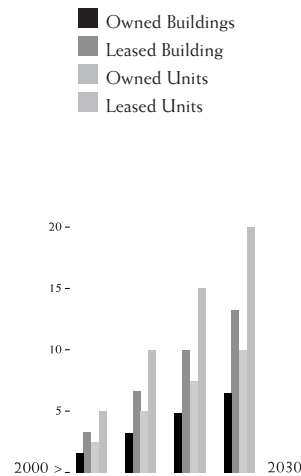
Last year saw a number of important changes at Emeritus as we resumed our acquisition strategy, made a significant investment in Alterra Healthcare Corporation, enhanced our special care and insurance programs, and retired our Series A Preferred stock.

For the year, net income to common shareholders was \$4.5 million compared to \$13.6 million loss for 2002. These results include gains of \$14.5 million related to the early retirement of our Series A Preferred stock.

Total Operating Revenue increased \$53.6 million to \$206.7 million for the year. Most of this increase came from the acquisition of 43 communities during the year. Total Operating Expenses increased \$47.6 million to \$199.7 million for the year, primarily from acquisitions. Income from operations, increased \$5.9 million to an income of \$6.9 million for 2003, compared to income of approximately \$1.0 million in the previous year.

**Acquisitions boost number of consolidated communities**

In 2003, we acquired a net of 43 communities in our consolidated portfolio through a series of five transactions, primarily from communities we previously managed. Since most of these communities were already in our existing areas of operation, they allow us to further expand our opportunities with minimal impact to our overhead. They represent a successful implementation of our acquisition strategy, which is based on seeking opportunities to grow the company where acquisitions don't have a negative impact on the income statement or require significant amounts of



**Movement from Managed to Leased Properties**

The expertise and experience of our senior management are keys to our success. Our top six corporate officers have 125 years of combined management experience in the health care industry.

cash. They provide significant upside potential over what they would have provided had they remained as only managed communities.

In our total operated portfolio of 175 communities, we had a net decrease of five communities as compared to 2002.

**Alterra acquisition closes**

In December, a joint venture entity in which we hold a 25 percent interest closed on the acquisition of Alterra Healthcare Corporation, a Milwaukee, Wisconsin-based provider of assisted living and dementia care facilities. The acquisition represents an investment of \$7.6 million on the part of Emeritus.

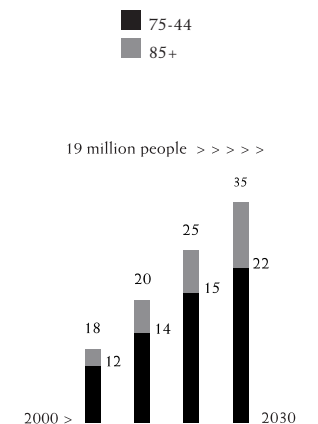
As part of the acquisition, the joint venture has acquired all of the outstanding stock of Alterra Healthcare Corporation and its subsidiaries, comprising 305 communities in 21 states. Alterra Healthcare emerged from Chapter 11 Bankruptcy and will be operated as a privately held company.

While we view the Alterra acquisition strictly as an investment, it may offer the opportunity for additional expansion of Emeritus communities in the future.

**One-time gain nets company \$14.5 million**

Through a series of events, we had the opportunity to reacquire our Series A Preferred stock with a face value of \$25 million and \$10.1 million in

According to information summarized from the United States Bureau of Census, the population of people 85 and older is expected to increase by 33.2 percent between the years 2000 and 2010.



**Age 75 & Over by Age Group (in millions)**

accrued and unpaid dividends for \$20 million. This amount represented forgiveness of accrued and unpaid dividends and a discount of \$5 million off the face value of the stock.

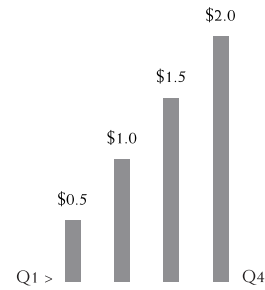
We were able to finance the transaction through sale and leaseback transactions with real estate investment trusts. The net effect was the elimination of a \$25 million liability that would have been due in October 2004, and a one-time gain of \$14.5 million.

**Special Care Programs provide help where it's needed**

More than four million people have memory loss or dementia. Our Special Care Programs offer a combination of specially designed facilities and uniquely trained caregivers to care for these people.

The company benefits from Special Care Programs in two ways. First, they help us attract new residents. And second, they help us retain the residents we already have. Last year we doubled the number of memory loss programs in the communities that we own. About half of our communities now have these programs in place.

As part of our resident-focused philosophy of care, we make every effort to truly connect with our special care residents, who are often living in their past. Through our program called "Join Their Journey," we work to understand the disease process and develop special programs that engage residents in meaningful activities throughout the day.



**Seniors Expected to Develop Alzheimer**  
(in millions)

The tremendous quality of life in our communities is owed, more than anything else, to our dedicated staff members and the superior care and services they provide.

**Giving our residents the "Royal Treatment"**

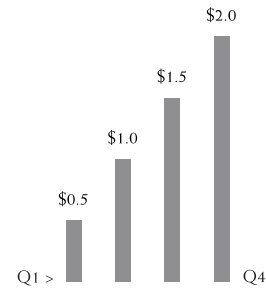
Our high standards and approach for delivering care, unique within the industry, make us a preferred residential choice for seniors. Our well-trained caregivers are assigned to work only with a select set of residents on a permanent basis. This personal, one-on-one care not only forges important bonds between resident and caregiver, it also enhances the knowledge our caregivers have about each resident's needs.

We think of our customer service orientation as giving our residents and their families the "Royal Treatment." It means taking time to talk and be with the families of prospective residents. It means doing everything we can to make it easier to move in. It means providing an extraordinary experience when people walk into our buildings. It means, quite simply, proactively meeting our residents' needs.

To do an even better job of serving our residents, both current and future, we are expanding customer service hours throughout our communities and working harder to understand each and every market we are operating in, from its demographics to its competition—not just other assisted living units, but also home health providers and other alternatives.

Finally, we are fine-tuning the way we monitor occupancy in our communities, watching closely for downward trends and reacting quickly. If occupancy in any community drops in two consecutive weeks, our staff is prepared to take immediate action to find out why and correct it.

We currently hold interests in 172 communities representing capacity for approximately 18,000 residents in 32 states.

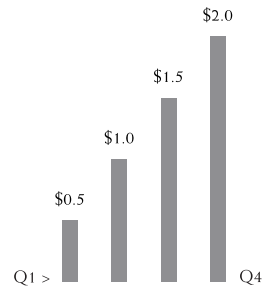


**Revenue**  
(in millions)

# Invest.

## A positive time for our industry

As we open 2004, we are starting to see some positive signs that could bode well for our industry and our company. We believe that the industry corrections of past years are behind us. There is a renewed interest by the investment community in the senior housing sector, including assisted living, and skilled nursing. It seems everyone agrees consolidation of smaller operators into larger companies is necessary. Financial players are looking for operating companies like Emeritus to acquire independent properties and smaller private companies being negatively impacted by the high cost of traditional insurance programs. For much the same reason, these independent properties and smaller private companies are looking for an exit strategy. Emeritus is well-positioned to capitalize on these opportunities.



**Income From Operations**  
(in millions)

Sincerely,

Daniel R. Baty  
Chairman and Chief Executive Officer

We maintain occupancy through new offerings. One of these special care programs, Companion Shared Services Living, has a two percent increase in Resident/Unit occupancy.

